

Internal Control and Transparency in Brazil, in the way to a reform of the public audit

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As a invited member of the Internal Audit Community of Practice – Public Expenditure Management Peer-Assisted Learning – IACOP/PEMPAL, Brazil are taken part in this initiative since 2015, when the partnership was established with CONACI – Brazilian National Council on Internal Control, under the support of the World Bank, in a international seminar about Internal Control and Internal Audit Function occurred in Brasília, with the presence of Arman Vatyán, Svilena Simeonova, Tomislav Micetic, Miguel Santiago, Maria João Kaizeler, Joseph Kizito and Elizabeth MacRae, when I was the President of CONACI and already had confidence in the international exchange as an efficient strategy for the institutional improvement of Public Administration.

After that, CONACI took part, by my personally presence, at the PEMPAL meetings in Prague (Czech Republic, march 2016), Moscow (Russia, october 2016) and Budapest (Hungary, march 2017), and a study visit was carried out in Zagreb (Croatia) and Sofia (Bulgaria), on march 2016. All the contents were published in special editions and at the website www.conaci.org.br, as well as are been using in courses and trainings with the participation of the majority of the Brazilian Internal Control units, in the struggle to be more useful and efficient the activities of internal audit, according to international parameters.

This important partnership with CONACI and IACOP/PEMPAL – World Bank reveals the institutional purpose and compromise in make more strong this international exchange



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opportunity, because our culture, history and traditions could be different, but we have the same challenges and similar intentions.

I intend to present, here, a quick overview of the actual political organization of the Brazilian Estate, some elements about the situation of public internal control and the main perspectives of the RIFIX (Relationship of Internal Audit with Financial Inspection and External Audit) reform in the biggest country of South America.

My country has 206 million people and is organized as a presidentialist Federative Republic, with 3 Political Powers and 3 levels of government, each one with independence and autonomy – the Union or federal level, 27 States and a Federal District, and 5.570 Municipalities.

The public sector control in Brazil is designed by the Federal Constitution approved in 1988, the beginning of the democratic rule of law system, called the Citizen Act, in assurance of human rights, democracy, freedom and equality.

By the article 37 of the Constitution, the Brazilian public management is submitted to the principles of legality, impersonality, morality, transparency and efficiency, and there are a complex institutional arrangement trying to guarantee the effectiveness of the system, provided with external and internal control, in compliance with the articles 70 e 74.

For accounting, financial and budgetary supervision, the article 70 says: *“The accounting, financial, budgetary, operational and patrimonial supervision of the Union and entities of the direct and indirect administration, as to the legality, legitimacy, economy, application of subsidies and renouncement of revenues, shall be exercised by the National Congress, through control external, and by the internal control system of each Power.*

Single paragraph: It shall render an account of any natural or legal person, public or private, who uses, collects, stores, manages or manages public money or assets or for which the Union responds or who, on its behalf, assumes obligations of a pecuniary nature.”

And, at article 74: *“The Legislative, Executive and Judicial Branches shall maintain, in an integrated manner, an internal control system with the purpose of:*



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I - assess the achievement of the targets set in the multiannual plan, the execution of the government programs and the budgets of the Union;

II - to prove the legality and evaluate the results, as to the effectiveness and efficiency, of the budgetary, financial and patrimonial management in the organs and entities of the federal administration, as well as of the application of public resources by entities of private law;

III - to exercise control over credit operations and guarantees, as well as the rights and assets of the Union;

IV - support external control in the exercise of its institutional mission.

Paragraph 1. Those responsible for internal control, upon learning of any irregularity or illegality, shall notify the Federal Audit Court, under penalty of joint and several liability.

Paragraph 2. Any citizen, political party, association or union is a legitimate party to, according to the law, report irregularities or illegalities to the Federal Audit Court.”

As the Constitution, the external control of the Public Administration is a competence of the Parliament, with the specialized contribution of the Court of Accounts (an independent board of auditors that analyses and may approve or impose penalties to the budget users). Another independent institution, called Public Ministry (the name for the prosecutors unit, located outside of the government), include the possibility of any citizen denounce some wrongdoing.

Internal control, in complementary way, means principally 4 macrofunctions, which are four main areas of activities: internal audit, ombudsman, disciplinary and transparency. There are even a Constitutional Emmendment (PEC 45), occurring in the Senate nowadays, to put in the highest law that the internal control is a fundamental function of the Public Administration, and have to be developed in that 4 macrofunctions, organized in permanent units composite with public agents.

At the federal level of government, the internal control has an especificMinistry for Transparency, Fiscalization and Control, called CGU – Comptroller General of the Union, with 2 thousands agents in 4 Secretaries:

1. InternalAudit, with 600 auditors;



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2. Ombudsman, a kind of listening unit, to receive complains and provide answers, guarantying the free access to public information;
3. Internal Affairs, to investigate irregularities and point disciplinary measures;
4. Transparency and Prevent Corruption, to promote access to public information, making courses and editing manuals, for example.

The States and the Cities have, each one, its own system of internal control, some of them using the concentrated model - like the federal CGU – and others are provided with many decentralized units, as the case of São Paulo State:

1. Internal Audit unit, called Evaluation and Control Department, with 230 auditors, in the Finance Secretary;
2. Ombudsman General, in the Cabinet of the Governor, to coordinate a net with 358 units, that received last year more than 1 million demands (complains, denounces, ask for information, suggestion and compliments);
3. Internal Affairs, in the Cabinet of the Governor, to administrative investigations and coordinate another units of disciplinary purposes;
4. Transparency and Prevent Corruption, as another competence of the Ombudsman, that has the responsibility for the internet site and to put into practice the Freedom of Information Act.

The responsables of the Internal Control Central Units, in National level, States and Capitals, are the members of the CONACI, that makes workgroups and regular formal meetings 4 times a year, to change experiences, approve technical standards, discuss common issues and elaborate proposals to make the internal control stronger and more efficient, under the follow purposes:

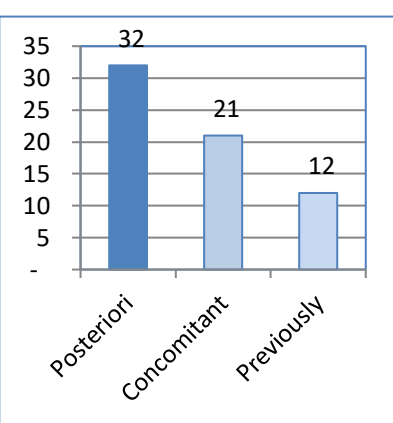
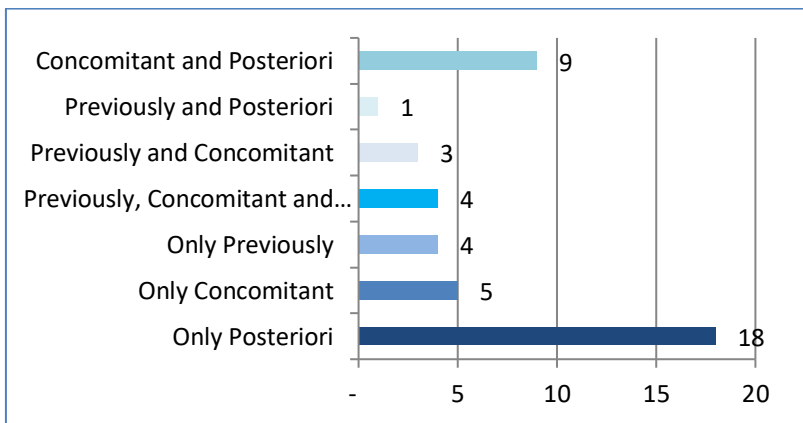
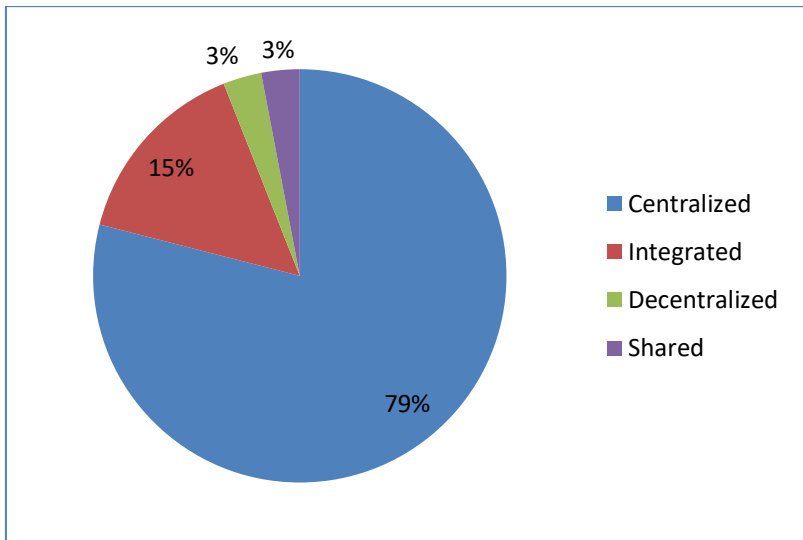
- Development of an effective performance in the control of public administration
- Contributing to the prevention and combating corruption
- Striving for greater integration between the Internal Control Agencies aiming: exchange of experiences, knowledge and tools
- Effective means strengthening of its institutions and contributing to the full implementation of the democratic rule of law.



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As we can see looking for the recent national survey done by CONACI, internal audit may occur in many types of procedures – centralized, decentralized, integrated, shared and outsourced – and few units use the international parameters of internal audit, highlighting the need to increase the best practices.



INTERNATIONAL STANDARD	QUANTITY	%
COSO	8	18,18%
IA-CM	3	6,82%
IA-CM (em implementação)	3	6,82%

Do not use international standards

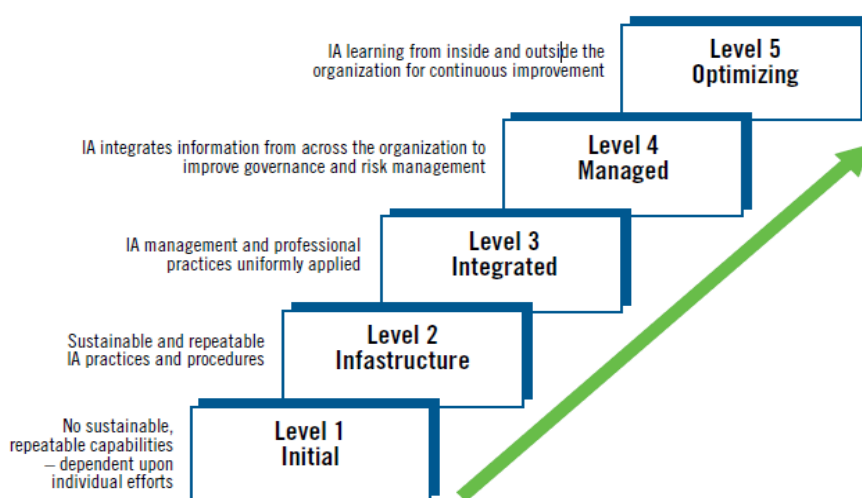
31

70,45%

(*Research conducted by CONACI among its members in 2016 - april to june. There were 44 members who responded to the research)

IA-CM evaluation occurred, initially in 2015, in five Internal Control Entities from different 5 Brazilian States: Minas Gerais, Maranhão, Piauí, Federal District and Mato Grosso do Sul. Documents revision, ratification of self evaluations and report analysis in some cases to identify possibility for improvements, and the evaluation results that the entities need shall develop and implement essential processes and activities in order to achieve Level 2 (Infrastructure).

Table: IA-CM Levels



The CONACI Strategic Planning 2016 – 2018 established:

- Actions to strengthen the macrofunctions of the Internal System Control;
- With regards Audit, main actions: ramp up the World Bank partnership, Improvement of the Governmental Internal Audit legislation and frameworks, Evaluate the Internal



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Control System bodies based on the IA-CM model, Development of training program and certification for the Internal Auditor.

In this way, the partnership between CONACI and World Bank to improve the internal audit in Brazil, according to the international parameters of IIA – International Internal Audit Association and INTOSAI, COSO methodology, PIC model, IA-CM and others relevant standards of best practices, is a strategic agenda for the immediate future, looking for the challenge to grow up the level of quality and results of the Brazilian internal audit, clearly defining the concepts, well organizing the activities of audit, inspection, harmonization and financial control.

Because of that, just occurred, 2 years ago, a study visit to Croatia and Bulgaria, and a participation in the Pempal-Iacop Plenary Meeting in Prague, Moscow and Budapest, giving the opportunity for a productive international cooperation.

Our huge tropical country is a young democracy fighting systemic corruption with legal weapons, and the President just lost her mandate, convicted by violation of the fiscal rules in an impeachment process conducted by the National Congress, as stipulated by the democratic Constitution, under the Supreme Court supervision.

The crisis is giant, so the opportunity for change cultures and procedures; in CONACI we believe that it is possible to prevent corruption and making a better public management with an effective internal control. The moment for reform the internal audit in Brazil is now, and the basis is solid: budget and financial control systems, as well as fiscal responsibility, since 90 decade; good laws on transparency, access to information, antitrust, anticorruption, public morality and other factors, including the international cooperation, can do the difference. The use of internet to access public information, by the transparency sites, and sending e-mails asking for public data, is a reality for majority of the population, and an effective mode to prevent corruption and to assert citizenship. The hope usually wins.

Together, with the best efforts, certainly it is possible to go ahead in the way of transparency, ethics and a fairer world for all.

Gustavo Ungaro

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